



Director of
Central
Intelligence

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National Intelligence Daily

*Wednesday
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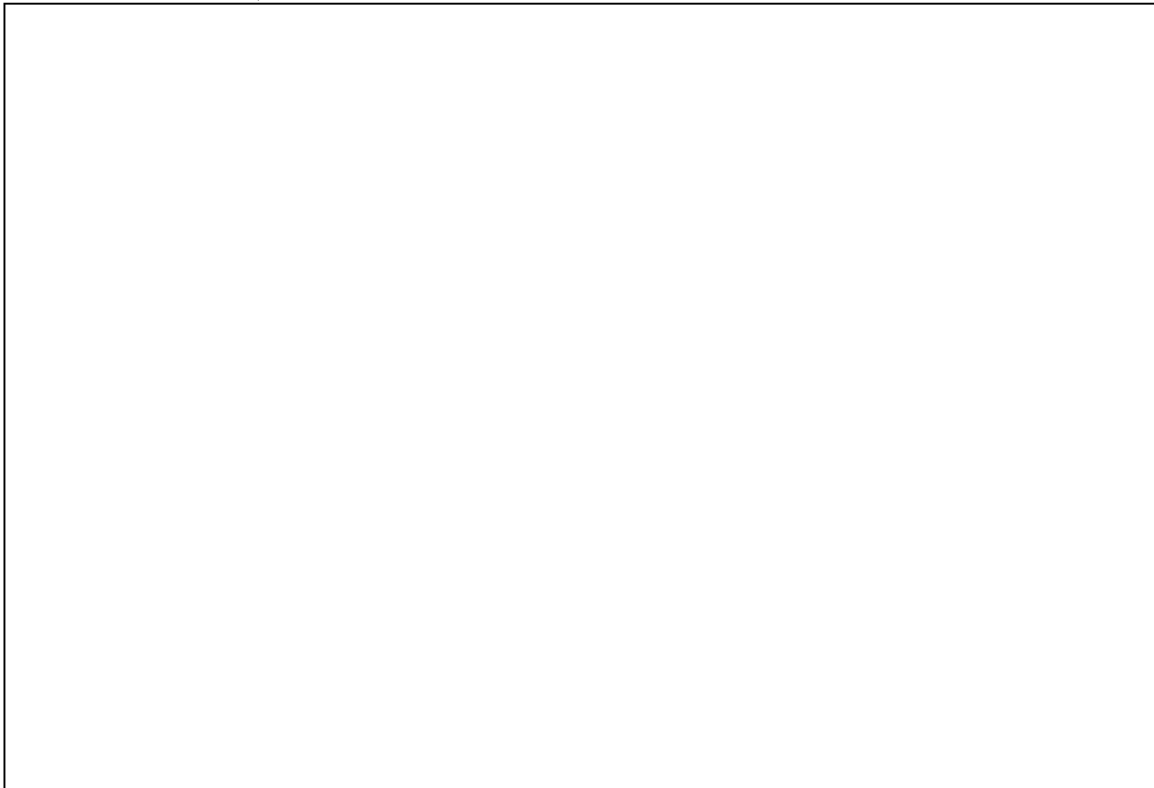
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Contents

Situation Report

Iran 1



~~Top Secret~~



9 April 1980

~~Top Secret~~

SITUATION REPORT

IRAN

Iranian hardliners are confident that their political position has been strengthened by the US sanctions. []

Both Ayatollah Khomeini and the militants believe that the break in diplomatic ties with the US advances their efforts to eliminate American influence. The militants, moreover, probably hope that the break will undermine President Bani-Sadr's position and make further negotiations with the US impossible. []

Bani-Sadr told Iranians yesterday that the US moves mean "war," suggesting that he intends to take a tougher position toward the US in order to improve his domestic standing. His clerical opponents, meanwhile, probably will continue to try to reduce him to a figurehead. []

Tehran has urged Iranians to prepare for sacrifices and to maintain discipline against the US. Iran has also threatened to cut off oil exports to any country that backs Washington. []

International Reactions

The USSR continues to place the responsibility for the failure to resolve the hostage crisis squarely on the US. A TASS broadcast yesterday referred to the Iranian leadership's readiness to solve the hostage issue as soon as the US shows a "constructive approach." Soviet broadcasts yesterday in Farsi cited US press reports concerning US plans for a naval blockade. (U)

Moscow probably anticipates that the moderates in Tehran will lose ground to hardline elements who oppose any reconciliation with the US. The Soviets have been concerned that Bani-Sadr and Foreign Minister Ghotbzadeh were willing to settle the hostage crisis and possibly set the stage for improved US-Iranian relations. []


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~~Top Secret~~

9 April 1980

~~Top Secret~~

Canada yesterday announced that it is consulting with its NATO allies on "the possibility of further action against Iran" should it continue to hold the US hostages. (U)

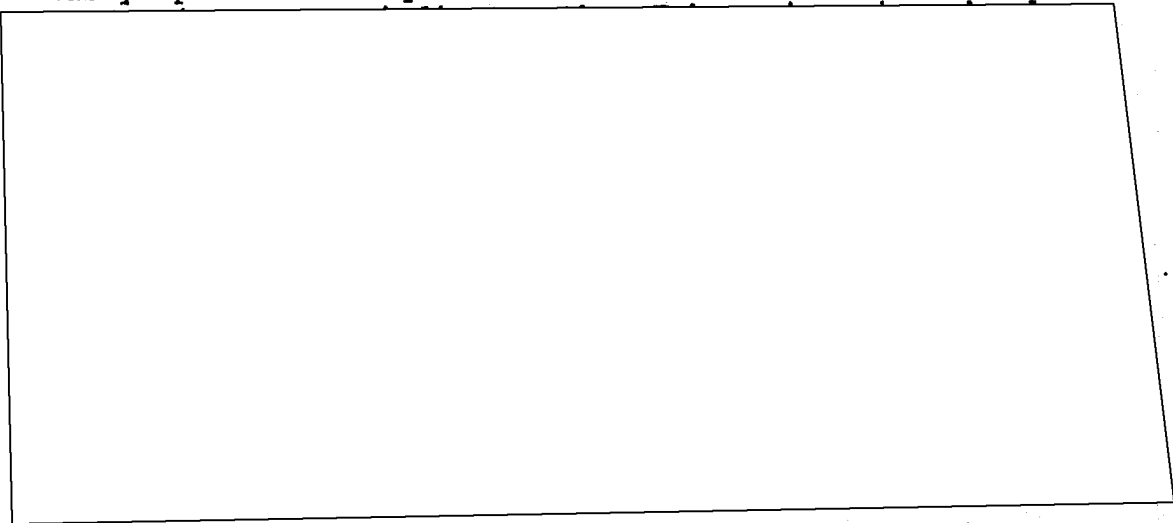
Australian Foreign Minister Peacock yesterday said that Canberra is responding to the US moves with a comprehensive review of all Australian relationships with Iran. The cabinet will convene on Monday to consider decisions on a new policy. 

The Chinese press has reported the break in diplomatic ties without comment. (U)

Pakistani President Zia said yesterday that there will be "no lack of assistance" from Islamabad for Tehran, but he did not directly refer to the US sanctions. (U)

Relations with Iraq

Tehran and Baghdad kept up their propaganda attacks on each other yesterday. Khomeini urged Iraqis to overthrow the Baathist regime and Iraqi President Saddam Husayn promised Iraq would not be intimidated by Iran.



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9 April 1980